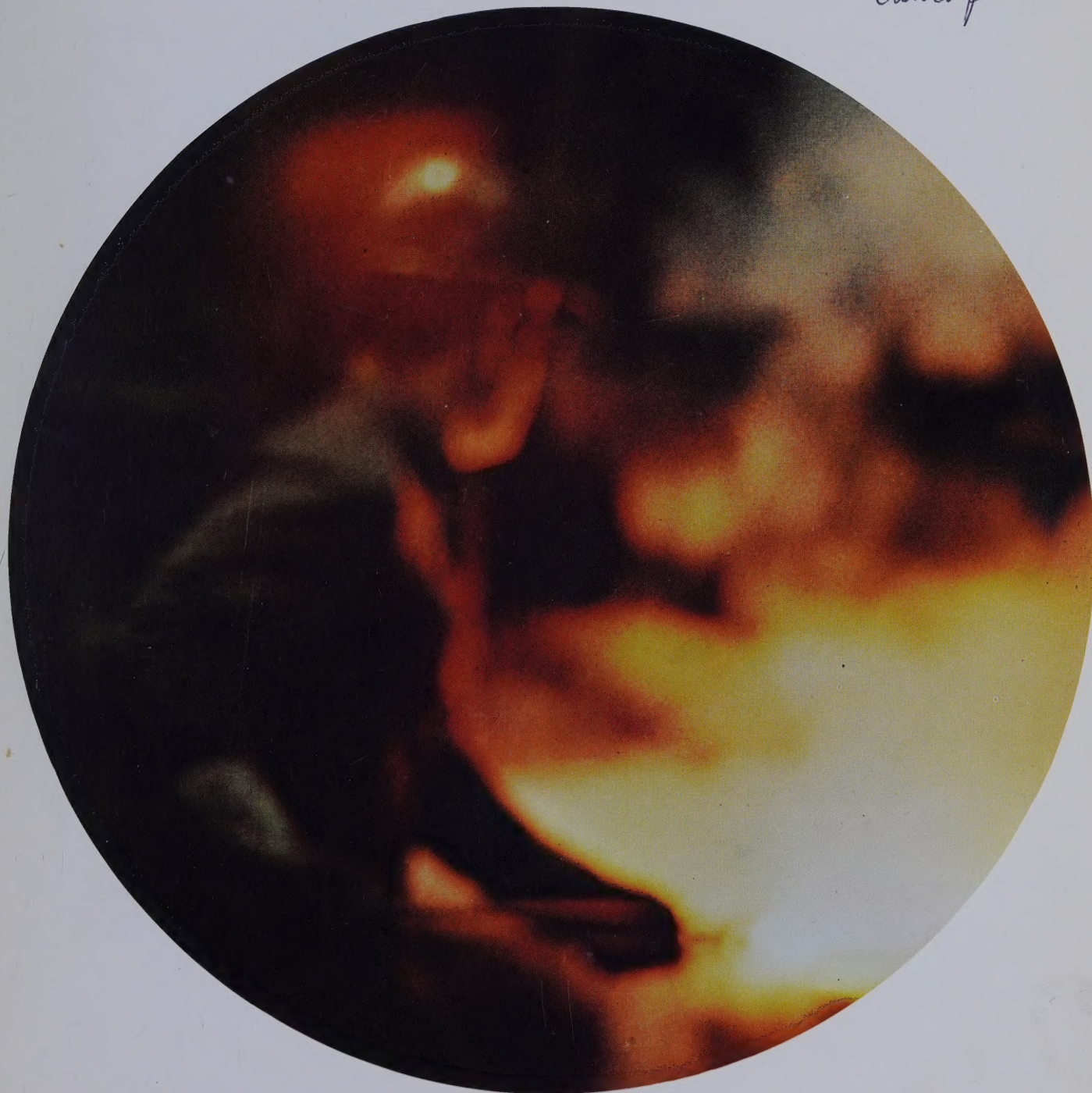


AR24

CANADA FORGINGS LIMITED

CONTROL ACQUIRED BY TOROMONT INDUSTRIES LTD, 1975

Cancof



ANNUAL REPORT 1972

DIRECTORS

J. W. Fraser
D. E. MacDonald
F. Peacock
J. C. Rykert
D. C. H. Stanley

OFFICERS

D. C. H. Stanley	— Chairman
D. E. MacDonald	— President and General Manager
J. W. Fraser	— Vice-President and Sales Manager
F. Peacock	— Vice-President and Secretary-Treasurer

REGISTRAR AND TRANSFER AGENT:
MONTREAL TRUST COMPANY, TORONTO AND MONTREAL
AUDITORS: CLARKSON, GORDON & CO., HAMILTON
LISTED ON THE MONTREAL STOCK EXCHANGE

CANADA FORGINGS LIMITED

REPORT TO THE SHAREHOLDERS

Net income for the year was \$267,169 as compared with net income of \$144,333 for the year 1971.

Net sales for the year, at \$7,023,900, showed an increase of 10.8 percent over 1971. This gain in sales volume was fairly well divided between our two plants.

the A general slackness, which has been a feature of the North American drop forgings market since 1970, dissipated during the second half of the year, allowing us to increase volume over the previous year. Indications are that this more beneficial climate will continue in 1973, giving promise of our again being able to achieve reasonably satisfactory levels of profit from this area of our business. Inasmuch as a large proportion of our Drop Forge sales is in U.S. dollars, the exchange rate continues to be significant.

The capital goods market, in which our Heavy Forge plant is engaged, has still not attained the buoyancy which is expected of it, although we did experience an increase in sales volume during the year. This market now appears to be improving, and we expect further gains in Heavy Forge sales in 1973.

In many respects we hold the opinion that your company has successfully weathered the economic downturn which had detrimental effects upon our 1971 operations. Business indicators for the foreseeable future are better than they have been for some years.

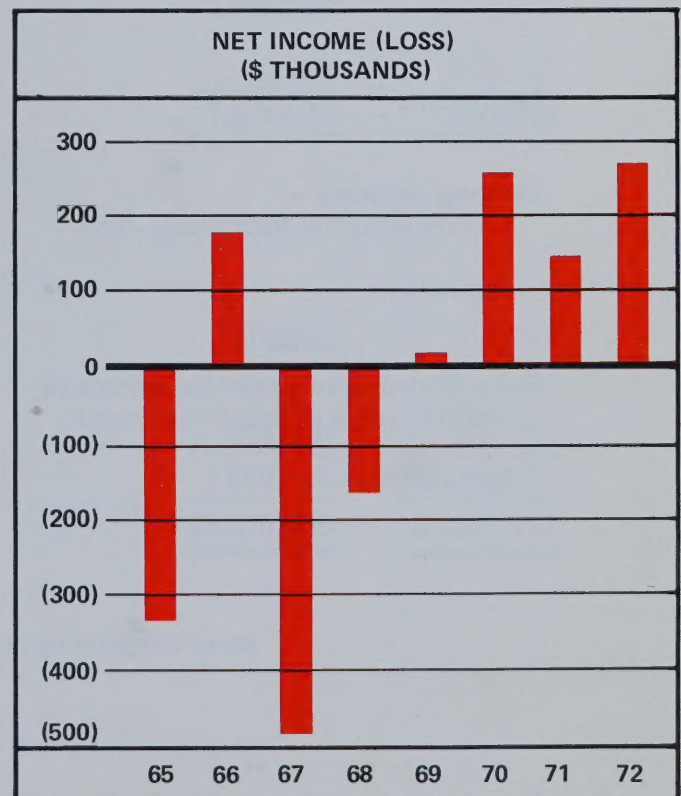
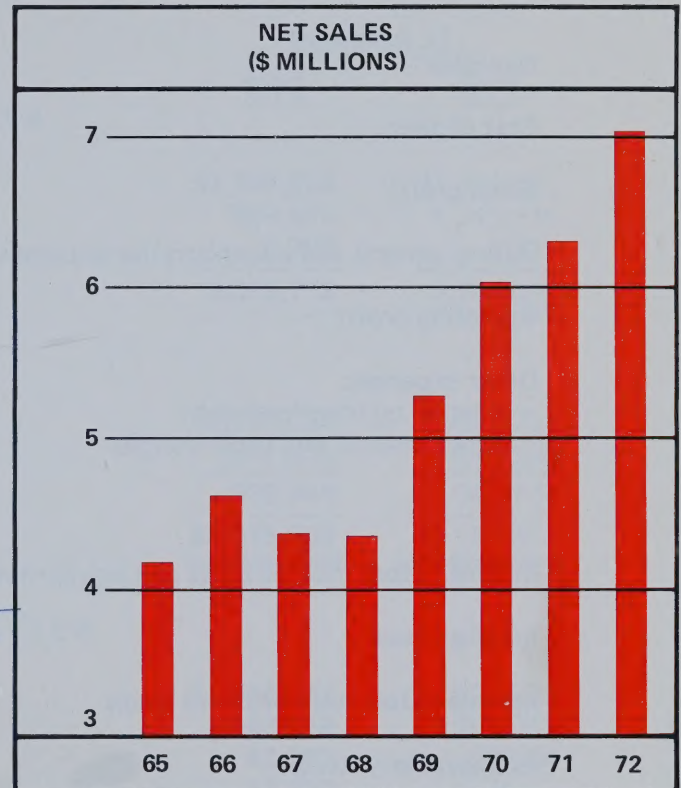
In May a satisfactory Agreement was negotiated with our plant employees, represented by the U.A.W., which extends through April 30, 1975.

In November a quarterly dividend of 10¢ per share was declared and the Board of Directors, at that time, announced a policy of continued dividend payments subject to the usual considerations.

At December 31, 1972 the company's undepreciated capital cost for income tax purposes exceeded the net carrying value of the depreciable assets by approximately \$900,000. This amount is available for the reduction of future years' income taxes.

Welland, Ontario
March 1, 1973

On behalf of the Board,
D. E. MacDonald
President



CANADA FORGINGS LIMITED

STATEMENT OF INCOME

Years ended December 31

	1972	1971
Net sales	\$7,023,900	\$6,336,972
Cost of sales	6,436,687	5,801,468
Gross profit	587,213	535,504
Selling, general and administrative expenses	301,215	307,504
Operating profit	285,998	228,000
Other expenses:		
Interest on long term debt	13,187	20,222
Other interest and bank charges	46,588	63,445
	59,775	83,667
Income before income taxes and extraordinary items	226,223	144,333
Income taxes	109,000	62,000
Income before extraordinary items	117,223	82,333
Extraordinary items:		
Reduction in income taxes (note 7)	109,000	62,000
Gain from insurance proceeds on boiler explosion	40,946	
	149,946	62,000
Net income	\$ 267,169	\$ 144,333
Earnings per share —		
Income before extraordinary items	\$.79	\$.56
Net income	\$1.80	\$.97
Fully diluted earnings per share (note 5) —		
Income before extraordinary items	\$.58	\$.42
Net income	\$1.29	\$.75

See accompanying notes to financial statements.

CANADA FORGINGS LIMITED
(Incorporated under the laws of Canada)

BALANCE SHEET

	<u>December 31</u>	
	<u>1972</u>	<u>1971</u>
ASSETS		
CURRENT:		
Accounts receivable	\$1,186,054	\$1,084,151
Inventories (note 1)	889,871	1,145,570
Prepaid expenses and deposits	2,788	1,371
Total current assets	<u>2,078,713</u>	<u>2,231,092</u>
FIXED (note 2):		
Land, buildings and equipment, at cost	2,764,278	2,623,254
Less accumulated depreciation	1,827,335	1,673,536
Total fixed assets	<u>936,943</u>	<u>949,718</u>
	<u>\$3,015,656</u>	<u>\$3,180,810</u>
LIABILITIES		
CURRENT:		
Bank indebtedness (note 3)	\$ 614,747	\$ 821,953
Accounts payable and accrued charges	643,316	734,011
Taxes payable	42,662	57,084
Dividend payable	14,803	
Current portion of long term debt (note 4)	120,000	120,000
Total current liabilities	<u>1,435,528</u>	<u>1,733,048</u>
LONG TERM DEBT (note 4)	<u>40,000</u>	<u>160,000</u>
Total liabilities	<u>1,475,528</u>	<u>1,893,048</u>
SHAREHOLDERS' EQUITY:		
Capital stock (note 5) —		
Authorized:		
500,000 common shares without par value		
Issued:		
148,075 common shares	914,562	914,562
Retained earnings accumulated since January 1, 1970 (note 6)	625,566	373,200
	<u>1,540,128</u>	<u>1,287,762</u>
	<u>\$3,015,656</u>	<u>\$3,180,810</u>
On behalf of the Board:		
D. E. MacDonald Director		
D. C. H. Stanley Director		

See accompanying notes to financial statements.

CANADA FORGINGS LIMITED

STATEMENT OF RETAINED EARNINGS

	<u>Years ended December 31</u>	
	<u>1972</u>	<u>1971</u>
Retained earnings beginning of year	\$373,200	\$228,867
Net income for year	<u>267,169</u>	<u>144,333</u>
	640,369	373,200
Dividends declared — 10¢ per share	<u>14,803</u>	<u> </u>
Retained earnings end of year	<u><u>\$625,566</u></u>	<u><u>\$373,200</u></u>

See accompanying notes to financial statements.

AUDITORS' REPORT

To the Shareholders of Canada Forgings Limited:

We have examined the balance sheet of Canada Forgings Limited as at December 31, 1972 and the statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1972 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton, Canada,
February 9, 1973

CLARKSON, GORDON & CO.
Chartered Accountants.

CANADA FORGINGS LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Years ended December 31

1972

1971

SOURCE OF FUNDS:

Operations —

Net income

\$267,169

\$144,333

Depreciation

170,154

157,919

437,323

302,252

APPLICATION OF FUNDS:

Fixed asset additions (net)

157,379

101,408

Provision for retirement of long term debt

120,000

120,000

Dividends

14,803

292,182

221,408

INCREASE IN WORKING CAPITAL

145,141

80,844

WORKING CAPITAL BEGINNING OF YEAR

498,044

417,200

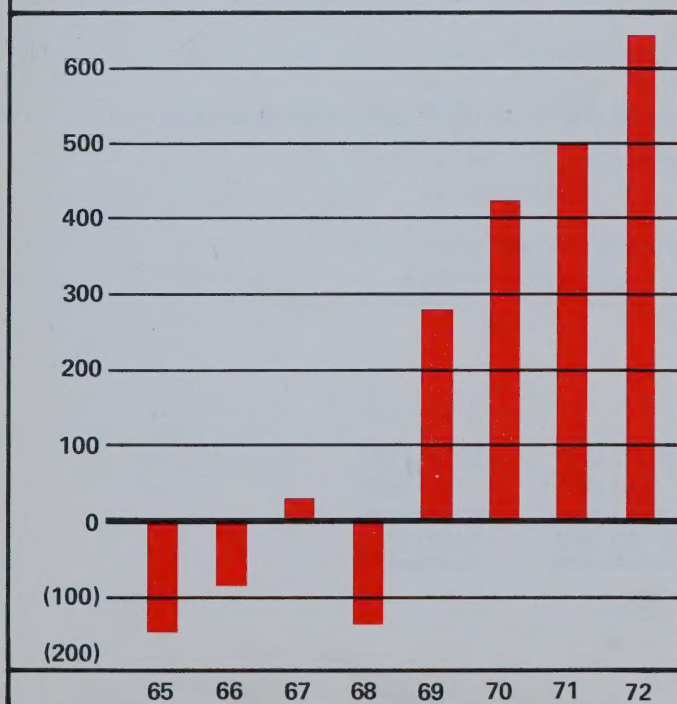
WORKING CAPITAL END OF YEAR

\$643,185

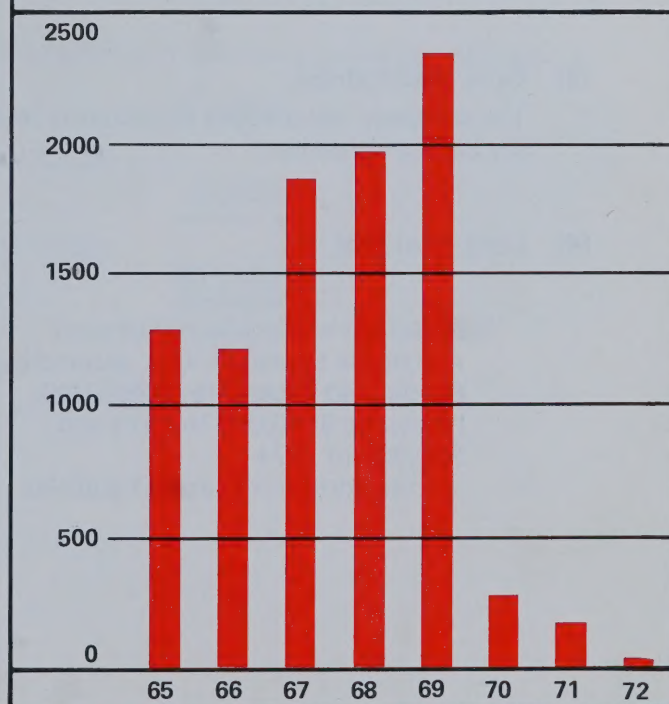
\$498,044

See accompanying notes to financial statements.

**WORKING CAPITAL
(\$ THOUSANDS)**



**LONG TERM DEBT
(\$ THOUSANDS)**



CANADA FORGINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

December 31, 1972

(1) Inventories -

The inventories are valued at the lower of cost and net realizable value and comprise the following:

	<u>1972</u>	<u>1971</u>
Raw materials	\$451,044	\$ 395,599
Work in process	358,354	657,205
Finished goods	64,684	81,201
Supplies	15,789	11,565
	<u>\$889,871</u>	<u>\$1,145,570</u>

(2) Fixed assets -

Fixed assets comprise the following:

	<u>December 31, 1972</u>			<u>Net value December 31, 1971</u>
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net value</u>	
Land	\$ 12,886		\$ 12,886	\$ 12,886
Buildings	316,362	\$ 122,870	193,492	158,783
Equipment	2,435,030	1,704,465	730,565	778,049
	<u>\$2,764,278</u>	<u>\$1,827,335</u>	<u>\$936,943</u>	<u>\$949,718</u>

Depreciation has been computed on a straight-line basis since January 1, 1965 as follows:

- Buildings - 5% of cost
- Equipment - 10% of net carrying value at January 1, 1965, and of cost for all subsequent additions.

(3) Bank indebtedness -

The company has pledged its accounts receivable and inventories as collateral security for the bank indebtedness.

(4) Long term debt -

	<u>1972</u>	<u>1971</u>
Government of Canada Adjustment Assistance Board 6% loan, secured by 6% secured debentures (\$660,000) repayable \$120,000 in 1973 and \$40,000 in 1974	\$160,000	\$280,000
Less portion in current liabilities	120,000	120,000
	<u>\$ 40,000</u>	<u>\$160,000</u>

(5) Stock options -

Under the company's stock option plan, which was approved in 1970, options have been granted to certain officers (who are also directors) of the company allowing them to purchase a maximum of 75,000 shares of the company's common stock at a price of \$4 per share, exercisable at any time up to and including August 13, 1980. No options were exercised during the year.

For the purpose of calculating the fully diluted earnings per share, the earnings applicable to common shares were increased by imputed interest (1972 - 7%, or \$21,000; 1971 - 8%, or \$24,000) less applicable income taxes, and the number of common shares was adjusted to reflect the additional shares that would have resulted from the exercise of the stock options.

(6) Capital reorganization -

The deficit at January 1, 1970 was eliminated as a result of a capital reorganization which was confirmed by supplementary letters patent dated November 16, 1970.

(7) Income taxes -

Income taxes otherwise payable for 1972 have been eliminated by application of losses of prior years.

The company's undepreciated capital cost for income tax purposes exceeds the net carrying value of the depreciable assets by approximately \$900,000. This amount is available for deduction from taxable income of future years.

(8) Pension plans -

Pension costs of \$72,980 charged against operations in the year include payments made in respect of past service and current service. The actuarially computed present value of the company's past service pension obligations as at December 31, 1972 amounted to approximately \$498,000. This amount is being funded and charged to operations over future years to 1989.

(9) Statutory information -

Expenses for 1972 include the following remuneration of directors and senior officers:

(i) fees of six directors	\$ 2,850
(ii) remuneration of four senior officers (all directors)	93,000
	<hr/>
total remuneration of directors and senior officers	<u>\$95,850</u>

CANADA FORGINGS LIMITED

FINANCIAL HIGHLIGHTS 1965 - 1972

(Amounts in \$000)

	1965	1966	1967	1968	1969	1970	1971	1972
OPERATIONS								
Net Sales	4208	4631	4365	4311	5289	6004	6337	7024
Gross Profit	423	759	145	366	593	678	536	587
% of Sales	10.0	16.4	3.3	8.4	11.2	11.3	8.5	8.4
Selling, General and Administrative Expenses	404	448	419	308	342	328	308	301
% of Sales	9.6	9.7	9.6	7.1	6.5	5.4	4.9	4.3
Operating Profit (Loss)	19	311	(274)	58	251	350	228	286
% of Sales	.4	6.7	(6.3)	1.3	4.7	5.9	3.6	4.1
Financial Expenses	183	172	213	221	243	100	84	60
% of Sales	4.3	3.7	4.9	5.1	4.5	1.7	1.3	.9
Income (Loss) before income taxes and extraordinary items	(164)	139	(487)	(163)	8	250	144	226
% of Sales	(3.9)	3.0	(11.2)	(3.8)	.2	4.2	2.3	3.2
Net Income (Loss)	(335)	175	(487)	(163)	8	250	144	267
% of Sales	(8.0)	3.8	(11.2)	(3.8)	.2	4.2	2.3	3.8
FINANCIAL POSITION								
Current Assets	1455	1667	1549	1450	1763	2027	2231	2079
Current Liabilities	1604	1758	1528	1593	1488	1610	1733	1436
Working Capital	(149)	(91)	21	(143)	275	417	498	643
Fixed Assets, at Cost	1796	1915	2107	2310	2399	2523	2623	2764
Accumulated Depreciation	1010	1080	1190	1284	1398	1517	1673	1827
Net Fixed Assets	786	835	917	1026	1001	1006	950	937
Long Term Debt (excl. current portion)	1315	1214	1874	1976	2343	280	160	40
Shareholders' Equity (Deficiency)	(578)	(403)	(890)	(1053)	(1045)	1144	1288	1540

CANADA FORGINGS LIMITED

Two Plants
Canada Forgings Limited (CanForge) is a Canadian public company with production facilities located in Welland, Ontario. Its facilities consist of two plants covering an aggregate of 170,000 square feet located on two parcels of land totalling 8-1/2 acres. Welland is advantageously situated in the Niagara Peninsula and provides close proximity to both raw material suppliers and the major industrial centres of North America.

The Heavy Forge plant is equipped with forging presses to 1000 tons, open die steam hammers to 8000 pounds, and a rolled ring forging unit, all with the required ancillary heat treating, cleaning, and testing support. The plant is also equipped with a full complement of lathes, boring mills, planers, and other machines to supply a complete range of rough machined forgings. CanForge products become part of pulp and paper machines, steel mills, heat exchangers, and other capital equipment either as original or service components.

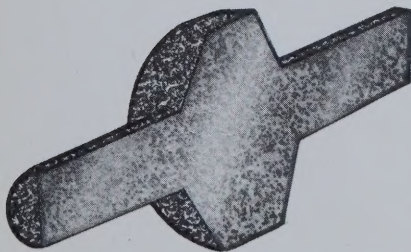
Each plant is in
The major markets for this division are located in Ontario and Quebec.

The Drop Forge plant has closed die steam and board hammers to 10,000 and 2,500 pounds respectively. This plant also has its own ancillary heat treating, cleaning, testing, and die-making facilities. Impression die forgings are produced weighing from a few ounces to 150 pounds, made from carbon, alloy, and stainless steel, as well as non-ferrous alloys. The primary markets for this division are in the automotive, petrochemical, railway, ordnance, aircraft, and agricultural implement industries. A large proportion of its product is exported to the United States.

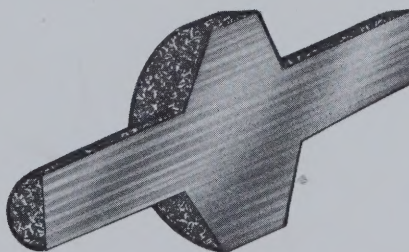
Both plants are supported by engineering and metallurgical skills which allow production within rigid specifications. The combination of a unique range of equipment in its plants and balanced inventories of raw material provides CanForge with the ability to offer prompt, efficient service to its customers.

CanForge now employs 275 people with its plant employees being represented by the U.A.W.

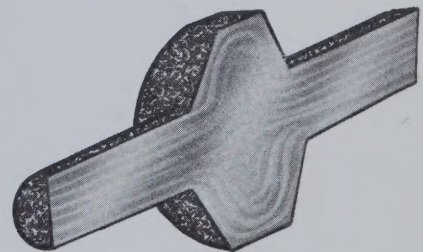
FORGING IS THE ONLY METALFORMING PROCESS THAT ORIENTS THE GRAIN OF THE METAL TO THE SHAPE OF THE PART. FROM THIS SIMPLE FACT STEMS THE MANY ADVANTAGES THAT ARE INHERENT IN ALL FORGED PARTS; HIGH STRENGTH, RELIABILITY, AND OPTIMUM MECHANICAL PROPERTIES.



CAST
From Molten Metal



MACHINED
From Bar Stock



FORGED
Hot or Cold

A CAST PART HAS A RANDOM GRAIN STRUCTURE.
A MACHINED PART RETAINS THE GRAIN ORIENTATION OF THE RAW STOCK.
ONLY A FORGED PART HAS THE GRAIN FLOW ORIENTED TO THE PART CONTOUR.



CANADA FORGINGS LIMITED

EMPIRE STREET, P.O. BOX 308, WELLAND, ONTARIO. L3B 5P8 — 416-735-1220